

Message Text

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FM AMEMBASSY WELLINGTON

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UNCLAS WELLINGTON 2991

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TAGS: EFIN, NZ

SUBJECT: NZ RESERVES DOWN DOLS 46 MILLION IN AUGUST

REF: A. WELLINGTON'S 2417

B. WELLINGTON'S 2943

1. ACCORDING TO LATEST NZ RESERVE BANK EXCHANGE TRANS-ACTIONS FIGURES, THE AUGUST NZ TRADE BALANCE TOPPED MINUS NZ DOLS 78 MILLION, UP FROM MINUS DOLS 51 MILLION FOR JULY. NET AUGUST OUTFLOW ON INVISIBLE TRANSACTIONS INCREASED TO NZ DOLS 38 MILLION, UP NZ DOLS 3.6 MILLION OVER JULY, BRINGING THE TOTAL AUGUST CURRENT ACCOUNT NEGATIVE BALANCE TO OVER NZ DOLS 116 MILLION.

2. A NET CAPITAL INFLOW OF NZ DOLS 57.3 MILLION REDUCED THE AUGUST LOSS IN FOREIGN EXCHANGE TO JUST UNDER NZ DOLS 46 MILLION.

3. OFFICIAL FOREIGN EXCHANGE RESERVES AT THE NED OF AUGUST DROPPED TO NZ DOLS 518.5 MILLION, DOWN FROM NZ DOLS 572.5 MILLION AT THE END OF JULY AND DOWN FROM NZ DOLS 1,070.2 MILLION IN AUGUST 1973, A FALL OF 52 PERCENT IN ONE YEAR.

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4. THE PRINCIPAL FACTORS CREATING THE GROWING NEGATIVE CURRENT ACCOUNT BALANCE WERE AN INCREASE IN FOREIGN TRAVEL BY NEW ZEALANDERS, A FALL IN THE AUGUST EXPORT RECEIPTS FOR WOOL, FOREST PRODUCTS AND OTHER PRIMARY PRODUCTS. (THOUGH THE EXPORT MARKET FOR DAIRY PRODUCTS IS FIRM AND MEAT IS DOWN, AUGUST RECEIPTS DO NOT CONFORM TO THE TRENDS FOR THESE COMMODITIES. THE VALUE OF MEAT EXPORTS ROSE NZ DOLS 6 MILLION DUE TO SEVERAL SHIPMENTS OF MUTTON AND LAMB TO THE MID-EAST. BUTTER AND CHEESE EXPORT RECEIPTS SHOWED A DROP BECAUSE OF LIGHT TRADE IN AUGUST AND AN AUGUST ADJUSTMENT DOWNWARD IN RECEIPTS. HAD THESE TWO TEMPORARY REVERSES NOT EVENTUATED, THE DROP IN TOTAL EXPORT RECEIPTS WOULD HAVE BEEN GREATER.)

5. THE GROWTH TREND FOR IMPORT PAYMENTS HAS CONTINUED TO DECELERATE SINCE MARCH. FROM JUNE TO JULY PAYMENTS ROSE 6.5 PER CENT BUT IN AUGUST THEY ROSE 1.6 PER CENT TO NZ DOLS 201.4 MILLION.

6. THE ANNUAL CURRENT ACCOUNT DEFICIT WAS NZ DOLS 522.5 MILLION VS A SURPLUS OF NZ DOLS 273.4 MILLION FOR THE YEAR EARLIER, A SWING OF NEARLY NZ DOLS 796 MILLION.

COMMENT: THE DECLINING TREND IN MONTHLY EXPORT RECEIPTS DURING 1974, HAS BEEN GROWING MORE PRONOUNCED EACH MONTH. IT APPEARS THIS WILL CONTINUE, TENDING TO WIDEN THE CURRENT ACCOUNT GAP. HOWEVER, THE PRINCIPAL EARLIER CAUSE FOR THE GROWING LOSS OF FOREIGN EXCHANGE, INCREASING IMPORT PAYMENTS, IS TAPERING OFF. THE GOVERNMENT'S POLICY OF OBTAINING FOREIGN LOANS (SEE REFTEL B) TO REDUCE THE FALL IN FOREIGN EXCHANGE CAN ONLY SUCCEED IF MEASURES TO REDUCE IMPORTS COMBINED WITH A RESURGENCE IN EXPORT RECEIPTS BEGIN SOON AND TO AN APPRECIABLE EXTENT TO REVERSE THE GROWING IMBALANCE IN TRADE.
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